

August 10, 2007

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AUG 14 2007

Mr. Christopher Koller  
Health Insurance Commissioner  
Department of Business Regulation  
233 Richmond Street, Suite 237  
Providence, RI 02903-4233

Health Insurance  
Commissioner

Subject: 1) Filing of New Non-Group Subscription Rates for Plan 65 Medigap Plans A, B, and C

2) Filing of New Non-Group Subscription Rates for Plan 65 Select Plans B, C and L

Dear Mr. Koller:

This letter and the enclosed documents comprise a filing by Blue Cross & Blue Shield of Rhode Island (BCBSRI) of new non-group subscription rates for the Corporation's Plan 65 Medigap and Select Plans. The enclosed documents include detailed actuarial schedules, an actuarial summary of the actuarial steps and assumptions, and information pertaining to the budget utilized for this Plan 65 filing. These new rates have been calculated to be applicable to billing cycle rate years commencing February 1, 2008, March 1, 2008 and April 1, 2008. The Office of the Health Commissioner approved the current Plan 65 Medigap and Plan 65 Select rates on December 14, 2006 for billing cycle rate years commencing February 1, 2007, March 1, 2007, and April 1, 2007. As of June 30, 2007, there were approximately 19,500 subscribers enrolled in these non-group plans.

**Plan 65 Medicare Supplemental Programs**

Medicare supplemental programs (Plan 65 Medigap and Plan 65 Select) for non-group subscribers under the Plan 65 class of business are made available by BCBSRI in accordance with the Department's Regulation 46, as amended.

As defined in Regulation 46, non-group Medicare supplemental programs (Medigap and Medigap Select) are designed to supplement or fill specific gaps in federal Medicare benefits. Benefits available through BCBSRI as part of the standardized Medicare supplement offerings are as follows:

- *Part A Deductible:* Includes coverage of the Medicare hospital deductible per inpatient hospital stay.
- *Part A Copayment:* Includes coverage for the Medicare hospital copayments for

the 61<sup>st</sup> through 90<sup>th</sup> days of an inpatient hospital stay and the additional 60 Medicare non-renewable lifetime reserve days.

- *365 Additional Days*: Includes 100% coverage of Medicare-allowed charges after Medicare benefits are exhausted for an additional 365 days.
- *Skilled Nursing Facility Copayment*: Includes coverage of the Medicare copayment for an inpatient stay of 21 through 100 days at a Medicare-approved skilled nursing facility after a minimum of three days in a hospital and within 30 days of leaving the hospital.
- *Part B Deductible*: Includes coverage of the annual Medicare Part B deductible.
- *Part B Copayment*: Includes coverage for the 20% coinsurance of Medicare-allowed charges.
- *Foreign Travel Emergency*: Includes coverage for 80% of Medicare-allowed charges after a \$250 annual deductible up to a lifetime maximum of \$50,000.

The following table illustrates the benefits available under each Plan 65 non-group product offered by BCBSRI, consistent with the standardized Medicare supplement offerings set forth by the Centers for Medicare and Medicaid Services (CMS).

<b>Benefit Offerings</b>	<b>Plan A Benefits</b>	<b>Plan B Benefits</b>	<b>Plan C Benefits</b>	<b>Plan L Benefits</b>
Part A Deductible		X	X	75%
Part A Copayment	X	X	X	X
365 Additional Days	X	X	X	X
Skilled Nursing Facility Copayment			X	75%
Part B Deductible			X	
Part B Copayment	X	X	X	75%
Foreign Travel Emergency			X	

In an attempt to simplify BCBSRI's product portfolio for the Medicare eligible population, BCBSRI decided to limit the number of plans available to subscribers. Effective April 1, 2001, Medigap Plan B and Select Plan B are no longer available to new enrollees. In accordance with the Balanced Budget Act of 1997 (BBA 1997), both plans continue to be available to those subscribers enrolled in these plans as of April 2001. Both Medigap Plan B and Select Plan B have minimal enrollment.

In addition to streamlining its product portfolio, BCBSRI is always looking for additional ways to simplify its processes. In light of this, BCBSRI is proposing to eliminate the surcharge rate class for Medigap A and Medigap C subscribers. This rate class was closed concurrent with the rate filing effective November 1, 1998. Prior to this, a surcharge of 20% over the base rate was charged to subscribers who applied more than five years after first eligibility for Medicare Part B as primary payer. As of April 2007, there were only 67 subscribers in this rate class. In order to simplify the current Plan 65

rating structure, BCBSRI is proposing to move these subscribers into the applicable Base Rate at the rates required in this filing effective February 1, 2008.

### **Required Increases**

As in prior filings for benefit plans supplementing the federal Medicare program, the required subscription rate increases are reflective of projected higher benefit costs primarily arising from factors beyond the control of BCBSRI. These factors include annual increases established by law in the Part A and Part B deductible and coinsurance amounts, and a continued overall increase in the use of benefits by subscribers. These factors are identified fully in the actuarial schedules accompanying this filing and are utilized in the calculation of the projected claims expense.

As a result of the items mentioned above and the impact that they have on the overall rate increase, the overall required rate increase effective February 1, 2008 is 6.9%. This reflects 4.38% for Medigap Plan A and 6.02% for Medigap Plans B and C. Plan 65 Select Plan B has a required rate increase of 3.51%, Plan 65 Select Plan C has a required rate increase of 9.01%, and Plan 65 Select L has a required rate increase of 1.68%.

### **Plan 65 Medigap**

The table below displays the present and required rates for Plan 65 Medigap Plan A, Plan B and Plan C subscribers.

BCBSRI discontinued the use of point-of-entry rating for Medigap Plan A and Plan C for all new subscribers enrolling on or after November 1, 1998. Any subscriber who had a point-of-entry rate as of November 1, 1998 continues to have "Discount" and "Surcharge" rates since this rating structure was intended to be in effect for the lifetime of the subscriber. The discount, base and surcharge factors utilized in the point-of-entry rating methodology are the factors previously approved by the Department.

<b>Plan 65 Medigap Monthly Rates</b>			
	<b>Present Rate</b>	<b>Required Rate</b>	<b>Percentage Increase</b>
<b>Plan A</b>			
Discount <sup>(1)</sup>	\$105.72	\$110.36	4.38%
Base <sup>(2)</sup>	\$117.47	\$122.62	4.38%
Surcharge <sup>(3)</sup>	\$140.95	\$122.62	-13.00%
Year 1 Age-in Rate <sup>(4)</sup>	\$82.23	\$85.83	4.38%
Year 2 Age-in Rate <sup>(4)</sup>	N/A	\$98.10	N/A
<b>Plan B</b>	\$111.52	\$118.23	6.02%

<b>Plan C</b>			
Discount <sup>(1)</sup>	\$164.89	\$174.82	6.02%
Base <sup>(2)</sup>	\$183.21	\$194.24	6.02%
Surcharge <sup>(3)</sup>	\$219.85	\$194.24	-11.65%
Year 1 Age-in Rate <sup>(4)</sup>	\$128.25	\$135.97	6.02%
Year 2 Age-in Rate <sup>(4)</sup>	N/A	\$155.39	N/A

- (1) Discount rates are applicable to subscribers who enrolled prior to November 1, 1998 and within six months of first eligibility for Medicare Part B as primary payer.
- (2) Base rates are applicable to all new enrollees, those subscribers who enrolled on or after November 1, 1998, and those subscribers who enrolled prior to November 1, 1998 and between six months and five years of first eligibility for Medicare Part B as primary payer. Applicants are required to complete a health screening prior to enrolling unless he/she enrolls in Plan A.
- (3) Surcharge rates are applicable to subscribers who enrolled prior to November 1, 1998 and after more than five years of first eligibility for Medicare Part B as primary payer. Effective February 1, 2008, BCBSRI is proposing to eliminate the Surcharge rate band for Medigap A and Medigap C and offering these subscribers the applicable Base rate.
- (4) Age-in rate applicable to new Plan 65 Medigap subscribers who enroll within six months of becoming eligible for Medicare Part B as primary payer. First year age-in rate is 70% of the base rate. Second year age-in rate is 80% of the base rate.

Schedules 5, 13 through 17, and 19 through 29 detail the projection of required income and the corresponding rate calculations for the Plan 65 Medigap program.

### **Plan 65 Select**

Plan 65 Select is a Medicare supplemental product offered to subscribers at reduced premiums from BCBSRI's traditional Medigap plans. The savings are attributable to network hospitals contracting not to seek compensation from either BCBSRI or the subscriber for inpatient hospital deductibles and copayments. Full Medigap benefits are paid when subscribers utilize network providers. The coverage of the Part A Deductible and Coinsurance amounts for out-of-network care typically is not covered; however, when emergency care is required, when services are not available within the network, or when it is not reasonable to obtain services through a network provider, these non-network Medigap benefits are paid in full.

This table displays the present and required rates for Plan 65 Select Plan B, Select Plan C, and Select Plan L subscribers.

Plan 65 Select Monthly Rates			
	Present Rate	Required Rate	Percentage Increase
<b>Select Plan B</b>			
Discount Rate <sup>(1)</sup>	\$96.81	\$100.21	3.51%
Standard Rate <sup>(2)</sup>	\$117.69	\$121.82	3.51%
<b>Select Plan C</b>			
Discount Rate <sup>(1)</sup>	\$114.60	\$124.93	9.01%
Standard Rate <sup>(2)</sup>	\$156.18	\$170.25	9.01%
Year 1 Age-in Rate <sup>(3)</sup>	\$80.22	\$87.45	9.01%
Year 2 Age-in Rate <sup>(3)</sup>	N/A	\$99.94	N/A
<b>Select Plan L</b>			
Standard Rate	\$100.80	\$102.49	1.68%
Year 1 Age-in Rate <sup>(3)</sup>	\$70.56	\$71.74	1.68%
Year 2 Age-in Rate <sup>(3)</sup>	N/A	\$81.99	N/A

- (1) Applicants are eligible for the "Discount" rate during the first six months of eligibility for Medicare Part B as primary payer or after successfully completing a health screening.
- (2) In order not to preclude existing Medigap subscribers from the opportunity of enrolling in Plan 65 Select at its inception, limited-time offerings of Select were extended to existing subscribers. Although existing subscribers were not required to complete a health screening, if a subscriber opted to complete a health screening and successfully passed, he/she was eligible for the "Discount" rate. If a subscriber did not pass the health screening, or opted not to complete the health screening, he/she was eligible for the "Standard" rate, which had not been favorably adjusted for age or morbidity. After this initial offering at the inception of Plan 65 Select, the "Standard" rating band was closed to new enrollment. Effective February 1, 2007, BCBSRI allowed subscribers that have been enrolled in a BCBSRI Medigap plan for 12 months or more to enroll in Select Plan C at the "Standard" rate without completing or successfully passing a health screening.
- (3) Age-in rate applicable to new Plan 65 Select subscribers who enroll within six months of becoming eligible for Medicare Part B as primary payer. First year age-in rate is 70% of the Select Plan C discount rate and Select Plan L Standard Rate. Second year age-in rate is 80% of the Select Plan C discount rate and Select Plan L Standard Rate.

Schedules 4, 7 through 11, and 19 through 29 detail the projection of required income and the corresponding rate calculations for the Plan 65 Select program.

### **Enrollment**

Non-group Plan 65 enrollment has continued to decline over the past several years. The following table illustrates historical non-group Plan 65 enrollment segregated by Plan 65 Medigap and Plan 65 Select:

<b>Non-Group Plan 65 Enrollment</b> (Rounded to Nearest Hundred)			
	<b>Plan 65 Medigap</b>	<b>Plan 65 Select</b>	<b>Total Non-Group</b>
<b>12/2001</b>	21,000	5,900	26,900
<b>12/2002</b>	19,400	5,700	25,100
<b>12/2003</b>	18,000	5,700	23,700
<b>12/2004</b>	16,600	5,600	22,200
<b>12/2005</b>	15,300	5,500	20,700
<b>12/2006</b>	14,100	5,600	19,700
<b>6/2007</b>	13,600	5,900	19,500

### **Expected Loss Ratios**

The minimum loss ratio standard of 65% set forth in Regulation 46, as amended, applicable to non-group Medigap coverage, including Medicare Select plans, would be met based on the claims projections and required rates contained in this filing. The projected return to subscribers in the form of aggregate benefits as a percentage of earned premiums for the entire period for which the new rates are computed is displayed in the following table:

<b>Expected Loss Ratios</b>				
	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Plan L</b>
<b>Plan 65 Medigap</b>	82.1%	105.8%	86.7%	--
<b>Plan 65 Select</b>	--	77.3%	85.6%	95.6%

### **Actuarial Schedules and Summary**

Enclosed with this filing is a summary of the Actuarial assumptions and steps, as well as detailed rate calculation schedules. The summary speaks to each of the major areas of the

rate calculation process and refers back to which schedules correspond to it. The detailed schedules mirror what have been submitted to the Office for previous filings.

### **Part B Physician Fee Increases**

The physician fee increases in this rate filing are based on the actual and projected increases in the Part B physician conversion factor. There was no increase in physician payments for 2007, per the Tax Relief and Health Care Act of 2006, signed into law on December 9, 2006. The change in the physician conversion factor for 2008 and 2009 is estimated to be an increase of 1.5% in this rate filing. Although the 2007 Trustees Report estimates the change in the physician conversion factor to be a 10% decrease for 2008 and a 5% decrease for 2009, these estimates are based on the Sustainable Growth Rate formula specified in the Medicare statute. However, similar decreases for 2004, 2005, and 2006, and 2007 were overridden by legislative mandate and it is anticipated that this will once again be the case. In fact, the 2007 Trustees Report also states, "Given recent history, multiple years of significant reductions in physician payments per service are very unlikely to occur before legislative changes intervene." The 1.5% increase is consistent with the overriding legislative mandates for 2004 and 2005.

### **Actuarial Certification**

The actuarial assumptions utilized in this rate filing have been developed under my guidance. As a member of the American Academy of Actuaries, I confirm that this filing was prepared using generally accepted actuarial principles that were consistently applied. Schedules 3 through 30 reflect fair, accurate, and reasonable computations of required rates for the BCBSRI Plan 65 Medigap products, Plans A, B, and C, and the BCBSRI Plan 65 Select Products, Plans B, C, and L.

### **Administrative Expense Information**

Also enclosed is a Plan 65 Budget Narrative and comparison exhibits. These documents speak to the allocated expenses for Plan 65.

### **Addressing Affordability**

As mandated by the Plan 65 Non-Group Rate Order and Decision by the OHIC on December 14, 2006, we submitted the 2007 Annual Affordability Report on July 20, 2007. In accordance with your guidance, since this filing is being submitted within 30 days of a report, we have not included an update at this time. However, as a supplement to the 2007 Annual Affordability Report, we have included with this filing a copy of the

Trend and Comparison Supplement to the 2007 Annual Affordability Report applicable to this Plan 65 Non-Group rate filing.

In addition, with last year's filing, we introduced the Age-in Credit Program and the new Select Plan L product to address affordability. An update of these programs is included in the Actuarial Summary enclosed with this filing.

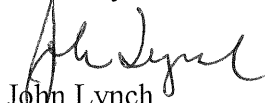
**Filing fee**

In compliance with the filing fee requirements contained in Section 42-14-18 of the General Laws of Rhode Island, a check in the amount of \$150.00 payable to "General Treasurer, State of Rhode Island" is enclosed with this submission. The Plan 65 Medigap policy form numbers pertaining to this filing are Plan 65 A (07/06), Plan 65 B (07/06), and Plan 65 C (07/06). The Plan 65 Select policy form numbers pertaining to this filing are Plan 65 SELECT B (07/06), Plan 65 SELECT C (07/06), and Plan 65 SELECT L (01/07).

We respectfully ask for your timely approval of this filing as submitted. BCBSRI believes that the required rates are in the interest of both the public and the Corporation.

As always, we shall be pleased to provide any additional information that you, or the Department's staff and consulting actuary, may require.

Sincerely,

  
John Lynch  
Chief Actuary

JL/swl

Enclosures

cc: Mr. G. Rollin Bartlett, FLMI, CLU, CHFC, CIE  
Mr. John A. Cogan Jr., Esquire  
Mr. Charles C. DeWeese, F.S.A., M.A.A.A.  
Mr. James E. Purcell  
Mr. Normand G. Benoit, Esquire  
Mr. James Joy  
Mr. Raymond G. Brown